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APPROVAL OF UNDP ASSISTANCE TO A PROJECT OF CHINA

IPF:(1992-96) $176 000 000

(CPR/91/521) - Tax Policy and Administration Reform

Date of approval by the AC:[1]	2 September 1992
Expected duration:	Two years and five months
Proposed executing agency:	Government (China International Center for Economic and Technical Exchanges (CICETE))
Government implementing agency:	State Tax Bureau (STB)
Proposed UNDP contribution:	$1 035 200 Source of funds: IPF
Government cost sharing:	$ 40 000
Third-party cost sharing:	$ 330 000
Total UNDP budget:	$1 075 200

Project background

The origins of the present tax system of China can be traced back two thousand years. This system has all along been characterized by the need to balance the tax levying powers of the Central Government with those of the local governments. Historically, this balance has inclined sometimes in favour of the Centre and at other times in favour of the provinces. As with other tax systems, the distribution of tax levies and generation of sufficient levels of revenue have also challenged Chinese authorities for centuries.

The control over tax collection and expenditure of revenue was generally concentrated in the Central Government before the reforms began in 1979. But after the reforms of the 1980's this control reverted to the provinces. That trend has become more and more prominent as the reforms have taken firmer roots, causing concerns about policies, systems and sharing of tax revenue. Another matter of equal concern is that not only is the Centre's share in the revenue declining, the share of total revenue as a percentage of GDP is also declining. For example, in 1987 the tax/GDP ratio was 23 per cent while in 1991 it declined to only 18.6 per cent.

The problem is two fold. Firstly, there does not exist a set of "complete" and "appropriate" tax policies, laws, regulations, etc.; and secondly, even the laws and regulations that do exist are not implemented effectively and equitably because of too many escape clauses, discretionary powers and divergent interests. The systems of checks and balances; of accounting; of audit and supervision are also less than adequate. Above all, the officials responsible for running these systems are not adequately trained to perform what for them are new kinds of functions. The Government of China has, therefore, undertaken to reform its tax system by overhauling its tax policies and by training the tax officials.

[1] This Fact Sheet reflects the status of the project/revision at the time it was approved by the Action Committee; modifications to the project/revision may have occurred subsequently.

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In conformity with the gradual nature of market-oriented reform, tax reform will not take place all at once. The present round of reform represents a further step in the evolution of the tax system, in line with the open-door policy commenced in 1979. Proposals for most reform have been considered in the framework of previous UNDP - supported technical cooperation, and the World Bank and IMF studies. To establish a legal framework, create a turnover tax, instil income tax reform, and develop tax administration, the Government requested UNDP assistance under the present approval.

Description of project

The long-term objective of the project is to assist the State Tax Bureau (STB) in initiating a major new phase of reform of the tax system under two aspects: (i) tax policies, laws and regulations; and (ii) tax administration.

The immediate objectives of the project are to: (a) prepare and update a "General Plan" for the reforms with training sessions and seminars (both in-country and abroad); (b) draft a number of tax laws for approval by higher authorities; (c) strengthen the administration and capabilities of tax institutions; (d) provide STB drafters with assistance of international tax law experts and to visit foreign countries to understand better comparative tax law (including the process of their preparation) and organize seminars to discuss in a wider forum different issues pertaining to the laws; (e) involve tax authorities and other relevant Chinese officials at the provincial and decentralized levels as well as those from central institutions; (f) prepare a detailed blueprint for reform of the tax administration and collection system; (g) implement on a pilot basis before adopting the blueprint in its totality a few of its provisions; (h) train a number of tax administrators for this by sending them to selected countries to study different aspects of tax administration; (i) send a number of officials abroad to receive longer-term training; (j) enable beneficiaries of the training to become trainers and leaders to disseminate the lessons throughout the country; and (k) improve the tax administration system through computerization of various operations.

Inputs

UNDP will provide 10.2 man-months of services of 19 international consultants' missions to advise on overall reform plans, comment on draft tax laws, assist with drafting if necessary, help in making contacts for study tours and longer-term training; participation of consultants in seminars as resource persons, 12 study tours and between 16 and 22 fellowships for the senior and mid-level officials, participation of six officials in training seminars in IMF, Washington and two consultation missions by the National Project Director also to IMF, Washington; and training and office equipment. The IMF will provide $ 330,000 of parallel funding for Washington seminars and other mission costs.

Financial data

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Personnel	298 000
Training	674 200
Equipment	83 000
Miscellaneous	20 000
Total	1 075 200

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